Voluntary _ Public

Date: 10/6/2015

GAIN Report Number: RS1580

Russian Federation

Post: Moscow

Restricted List of Fish Suppliers Impacts Russian Market

Report Categories:

Fishery Products

Approved By:

Robin Gray

Prepared By:

Staff

Report Highlights:

The GOR implementation of a food embargo, enacted in August 2014, forced Russia to source fish and seafood from a restricted number of eligible suppliers, including Faroe Island, Iceland and China. Then on August 14, 2015 the GOR further amended the embargo to restrict imports from more countries, including Iceland. According to trade sources, this embargo will likely result in the shrinking of the supply of traditional popular fish species in the local market, including mackerel, herring and capelin, as well as lead to increasing prices for fish and seafood. Small and medium scale fish processors will also be adversely impacted.

General Information:

The GOR implementation of a food embargo, enacted in August 2014, forced Russia to source fish and seafood from a restricted number of eligible suppliers, including Faroe Island, Iceland and China. Then on August 14, 2015 the GOR further amended the embargo to restrict imports from more countries, including Iceland. According to trade sources, this embargo will likely result in the shrinking of the supply of traditional popular fish species in the local market, including mackerel, herring and capelin, as well as lead to increasing prices for fish and seafood.

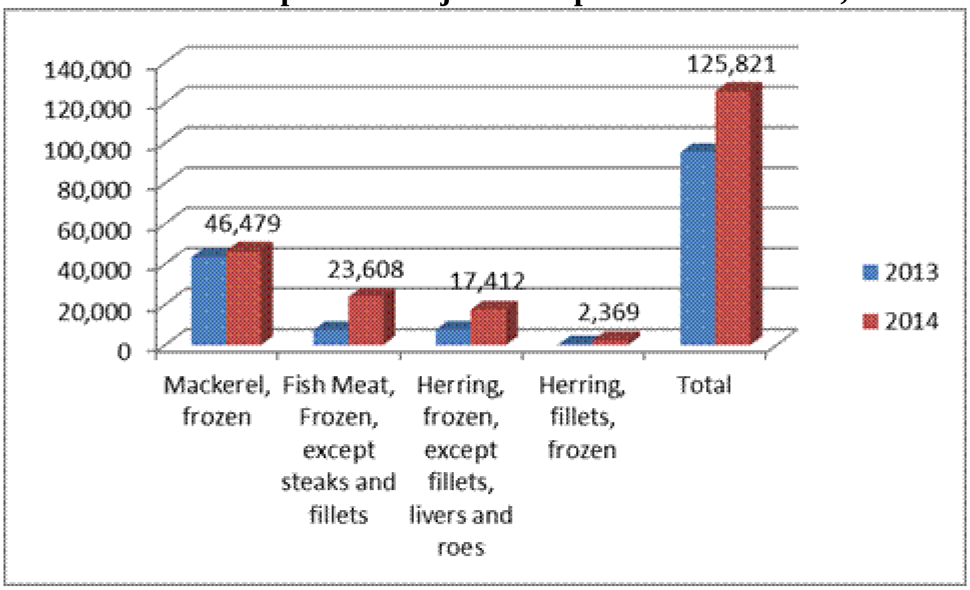
In 2014, imports of fish and seafood from Iceland to Russia escalated 32 percent in comparison with 2013. Russian Federal Customs Service (RFCS) reports that Russia imported 125,000 MT of fish and seafood valued at $232 million from Iceland in the first half of 2015. In 2014, Iceland was the second largest supplier of fish and seafood to Russia, following Norway, with imports from Iceland totaling 132,000 MT.

According to All-Russian Association of Fisheries Enterprises (VARPE), Iceland is one of the major suppliers of traditional fish species consumed by the Russian population, including mackerel, herring, and capelin. During the period January through July 2015, Russia's total imports of fish and seafood declined by 40 percent, down to 305,900 MT when compared to the total imports during the same period in 2014. Russia's imports from Iceland during that same period also decreased by 10 percent, however, Iceland's share of Russia's total imports increased from 10 percent in the January through July period in 2014, to 15 percent in that same period in 2015. This increase is attributed largely to Russia's imports of frozen herring and mackerel from Iceland. Imports of frozen herring (HS 030351) from Iceland increased 3.6 percent, from 3,307 MT in 2014 (January to July period) to 3,426 MT in the same period in 2015. Imports of frozen mackerel (HS 030354) from Iceland in 2015 increased 16 percent over the 2014 imports, reaching 11,000 MT, which is 44 percent of all Russia's imports of mackerel in the period of January-July 2015.

Sources estimate annual domestic consumption of herring in Russia from 400,000 MT to 450,000 MT during 2014. In 2014, Iceland shipped to Russia about 20,000 MT of herring, including herring fillet, or 5 to 7 percent of total consumption of herring in Russia. Russia's annual catch of Atlantic herring on average is estimated to be between 130,000 MT and 150,000 MT. Russia's annual catch of Pacific herring is estimated to be between 250,000 and 300,000 MT. According to the Federal Customs Service, Russia exports about 100,000 MT of Pacific herring to Asian markets. Some industry players have expressed concerns about a potential shortage of herring in the Russian market, since all major suppliers, such as Norway, Iceland, and Scotland are now restricted for export to Russia. Faroe Islands is the major eligible supplier of fish and they primarily supply herring to Russia. However, trade sources believe that Faroe Islands has a limited capacity to ship, likely not more than 30,000 MT. This capacity is not enough to satisfy Russian demand for herring. While there are other potential suppliers, such as Tunisia and Greenland, they also do not have the capacity to meet Russian demand. Researchers of the Russian Economic School report that Russia's catch of fish in volume can cover the gap for herring, however, poor logistics and high transportation costs of fish and seafood from the Far East will contribute to increasing prices. According to the Analytical Center of the Russian Federal Fisheries Agency (RFFA) since the beginning of CY 2015 prices for fish and seafood increased by 30 percent, and is forecast to add 15 percent more by the end of CY 2015. However, a number of fish producers and traders believe that prices for fish will increase by 20 percent by the end of CY 2015. According to the Head of Analytical Center of the RFFA, large Russian fish processors will be most affected by the ban since they are generally equipped to process Northern Atlantic herring rather than the local Pacific herring. The Pacific herring is nearly half the size as the Northern Atlantic herring and have different meat characteristics. Producers expect that if the Russian embargo on imports from Norway and Iceland is not lifted in the near future, a number of processing facilities will need to close. Sources have shared with OAA/Moscow information that medium or smaller fish processing facilities are forced to decrease processing volumes or even put a temporary hold on production lines for specific product, such as salmon roe.

Experts believe that Belarus will follow the same logistic/transport pattern with herring as it currently does with pink salmon (syomga). Currently salmon that is imported into Belarus from Norway or Iceland goes through minimal processing, such as adding of salt and/or spices, and is shipped to Russia for further processing and /or packaging and sale. However, some market players are not very optimistic that this scheme will also work for herring since Belarus has limited processing capacity and many argue that Belarus cannot "further transform" enough to satisfy Russian demand. Belarus has only 15 processing facilities and their capacity is low. Furthermore, unlike salmon, even a marginal increase in price as a result of additional transportation and/or processing cost will likely make herring less affordable for the average Russian consumer.

Table 1: Russian Imports of Major Fish Species from Iceland, 2013-2014, in MT



Source: Federal Customs Service